

**ALPENA TOWNSHIP
COUNTY OF ALPENA, MICHIGAN**

Audited Financial Statements and
Other Supplementary Financial Information

Year Ended March 31, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name ALPENA TOWNSHIP	County ALPENA
Audit Date 3-31-05	Opinion Date 6-22-05	Date Accountant Report Submitted to State: 9-29-05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C.			
Street Address 2106 U.S. 23 SOUTH	City ALPENA	State MI	ZIP 49707
Accountant Signature 		Date 9-29-05	

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Alpena Township
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Alpena Township, Michigan** as of and for the year ended March 31, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of **Alpena Township, Michigan's** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **Alpena Township, Michigan** as of March 31, 2005, and the respective changes in financial position and cash flows, were applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, **Alpena Township** has implemented the provisions of the Governmental Accounting Standards Board Statement Number 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended and interpreted, as of April 1, 2004.

In accordance with *Government Auditing Standards* we have also issued our report dated June 22, 2005, on our consideration of **Alpena Township's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Required Supplemental Information

The Management's Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Individual Fund Financial Statements and Other Supplemental Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise **Alpena Township, Michigan's** basic financial statements. The accompanying information identified in the table of contents as individual financial statements and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as whole.

Straley, Ilsley & Lamp P.C.

June 22, 2005

Alpena Township Management's Discussion and Analysis

The following is management's discussion and analysis of the financial position and results of operations for the fiscal year ended March 31, 2005. Please read it in conjunction with the financial statements and related footnotes, which follow this section.

This is the first year of implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain comparative information between the current year and the prior year is required to be presented in the Management's Discussion and Analysis (MD&A). However, because this is the first year of implementing the new reporting model, certain necessary comparative information of the previous year was not prepared. GASB Statement No. 34 permits the omission of comparative information in the first year of adoption of the new reporting model and, due to the financial resources necessary to prepare the comparative information for the prior year; the Township has elected to exclude the information in this report. Subsequent reports will include the comparative information.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Alpena Township financially as a whole. The *Government-Wide Financial Statements* provide information about the activities of the whole Township, presenting both an aggregate view of the Township's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short term as well as what remains for future spending. The fund financial statements look at the Township's governmental funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the Township acts solely as an agent for the benefit of students and parents. The annual report is arranged as follows:

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-Wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)

Budgetary information for the General Fund

Other Supplemental Information

Individual Fund Statements

Alpena Township Management's Discussion and Analysis

Financial Highlights

- The assets of the Alpena Township exceeded its liabilities at the close of the most recent fiscal year by \$10,222,783 (*net assets*). Of this amount, \$1,539,099 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Alpena Township's total net assets increased by \$62,900. This was the result of a decrease in the net assets of governmental activities of \$32,097 along with an increase in the net assets of business-type activities of \$94,997.
- The Alpena Township provided services of \$1,574,224 in governmental activities and \$1,518,313 of business-type activities for expenses totaling \$3,092,537 during the year ended March 31, 2005.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,278,487 or 81 percent of total general fund expenditures and operating transfers to other funds in comparison to \$1,289,069 at the close of the prior year, a reduction of \$10,582.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Alpena Township's basic financial statements. The Alpena Township's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Alpena Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Alpena Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Alpena Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Alpena Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Alpena Township include legislative, general government, public safety, public works, health and welfare and culture and recreation. The business-type activities of the Alpena Township include providing water and sewer services.

Alpena Township Management's Discussion and Analysis

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Alpena Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Alpena Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Alpena Township maintains one governmental fund. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund.

Proprietary funds. The Alpena Township maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Alpena Township uses enterprise funds to account for its Water and Sewage fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewage fund which is considered to be a major fund of Alpena Township.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Alpena Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the general funds' budget comparisons.

Alpena Township Management's Discussion and Analysis

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Alpena Township, assets exceeded liabilities by \$10,222,783 at the close of the most recent fiscal year.

By far the largest portion of the Alpena Township's net assets \$8,683,684 (85 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The Alpena Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Alpena Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

ALPENA TOWNSHIP'S, Net Assets

	Governmental Activities	Business-Type Activities	Total
	2005	2005	2005
Current and other assets	\$ 1,308,075	\$ 1,276,350	\$ 2,584,425
Capital assets	2,609,687	6,503,997	9,113,684
Total Assets	<u>3,917,762</u>	<u>7,780,347</u>	<u>11,698,109</u>
Current liabilities	147,544	1,067,782	1,315,326
Noncurrent liabilities	-	260,000	260,000
Total liabilities	<u>147,544</u>	<u>1,327,782</u>	<u>1,475,326</u>
Net assets:			
Invested in capital assets,			
Net of related debt	2,609,687	6,073,997	8,683,684
Restricted	-	-	-
Unrestricted	<u>1,160,531</u>	<u>378,568</u>	<u>1,539,099</u>
Total net assets	<u>\$ 3,770,218</u>	<u>\$ 6,453,565</u>	<u>\$ 10,222,783</u>

The balance of unrestricted net assets \$1,539,099 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Alpena Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$62,900 during the current year. This was the result of business-type activities ongoing revenues outstripping similar increases in ongoing expenses by \$94,997. Governmental activities, experienced a decrease of \$32,097 in net assets during the current fiscal year. While property tax revenue was up slightly, the substantial increase in expenditures is what attributed to the decrease in revenue over expenses.

**Alpena Township
Management's Discussion and Analysis**

ALPENA TOWNSHIP'S, Changes in Net Assets

	Governmental Activities	Business-Type Activities	Total
	2005	2005	2005
Revenues:			
Program revenues:			
Charges for services	\$ 57,468	\$ 1,609,295	\$ 1,666,763
Operating grants and Contributions	55,684	-	55,684
Capital grants and Contributions	88,590	-	88,590
General revenues:			
Property taxes	664,231	-	664,831
Other	675,534	4,015	679,569
Transfers	-	-	-
Total revenues	<u>1,542,172</u>	<u>1,613,310</u>	<u>3,155,437</u>
Expenses:			
Legislative	11,570	-	11,570
General government	486,265	-	486,265
Public safety	607,525	-	607,525
Public works	140,275	-	140,275
Culture and recreation	124,974	-	124,974
Health and welfare	37,250	-	37,250
Water and sewage	-	1,518,313	1,518,313
Other	166,365	-	166,365
Total expenses	<u>1,574,224</u>	<u>1,518,313</u>	<u>3,092,537</u>
Change in net assets	(32,097)	94,997	62,900
Net assets - beginning	<u>3,802,315</u>	<u>6,357,568</u>	<u>10,159,883</u>
Net assets – end	<u>\$ 3,770,218</u>	<u>\$ 6,452,565</u>	<u>\$ 10,222,783</u>

**Alpena Township
Management's Discussion and Analysis**

Cost of Services – Governmental Activities

	Total Cost of Services	Program Revenues	Net Cost of Services
	2005	2005	2005
Functions/Programs			
Legislative	\$ 11,570	\$ -	\$ (11,570)
General government	486,265	169,924	(316,341)
Public safety	607,525	16,282	(591,243)
Public works	140,275	-	(140,225)
Health and welfare	37,250	-	(37,250)
Culture and recreation	124,974	15,536	(109,438)
Other	166,365	-	(166,365)
	<u>1,574,224</u>	<u>201,742</u>	<u>(1,372,482)</u>
Total expenses	<u>\$ 1,574,224</u>	<u>\$ 201,742</u>	<u>\$ (1,372,482)</u>

REVENUES

Though property taxes continue to be our largest source of revenue, we had only a minimal increase again this fiscal year. The Township levies 2.19 Or 11.5 for the 2004-2005 tax season. The total taxable value on all real and personal property amounted to 291,939,258 for the fiscal year 2004-2005. The valuation represents a increase of \$26,567,684 from the preceding year. Total millage for the Alpena Township homestead property was 22.9941 and non-homestead property was 40.8305.

State revenue decreased again and may continue to do so because of the state revenue sharing cuts.

Cost of Services – Business-type activities

	Total Cost of Services	Program Revenues	Net Cost of Services
	2005	2005	2005
Functions/Programs			
Water and Sewage	\$ 1,518,313	\$ 1,609,295	\$ (90,982)
Total expenses	<u>\$ 1,518,313</u>	<u>\$ 1,609,295</u>	<u>\$ (90,982)</u>

Alpena Township Management's Discussion and Analysis

Financial Analysis of the Government's Funds

As noted earlier, the Alpena Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Alpena Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Alpena Township's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Alpena Township's governmental funds (general fund) reported ending fund balances of \$238,487, a decrease of \$10,582 in comparison with the prior year. All of this total amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

The Alpena Township has established a budget stabilization fund to account for funds accumulated as described in Public Act No. 30 of 1978. During fiscal 2004, the Township transferred \$190,045 to the general fund to maintain services. This left \$370,000 remaining in unreserved fund balance.

Proprietary funds. The Alpena Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewage fund at the end of the year amounted to \$578,568. The change in net assets for the funds was \$94,997. Other factors concerning the finances of this fund have already been addressed in the discussion of the Alpena Township's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget are as follows:

- \$ 49,772 increase in general fund revenue
 - \$ 18,699 increase in state administration fees
 - \$ 21,073 increase in miscellaneous income
 - \$ 8,385 increase in interest earned
 - \$ 13,514 increase in grants
 - \$(11,900) decrease in revenue sharing
- \$ (53,306) decrease to allocated public safety
- \$ 25,000 increase to buildings and grounds (Fire Department)

**Alpena Township
Management's Discussion and Analysis**

Capital Asset and Debt Administration

Capital assets. The Alpena Township's investment in capital assets for its governmental and business type activities as of March 31, 2005, amounts to \$47,133,766 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment and infrastructure.

ALPENA TOWNSHIP'S, Capital Assets

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005
Historical cost:			
Land	\$ 1,926,000	\$ 17,030	\$ 1,943,030
Construction in progress	-	269,549	269,549
Buildings and improvements	1,355,000	199,788	1,554,788
Equipment	381,400	183,918	565,318
Infrastructure	-	8,883,736	33,883,736
	<u>3,662,400</u>	<u>9,554,021</u>	<u>13,216,421</u>
Accumulated depreciation:			
Equipment	<u>(1,052,713)</u>	<u>3,050,024</u>	<u>4,102,737</u>
Net capital assets	<u>\$ 2,609,687</u>	<u>\$ 6,503,997</u>	<u>\$ 9,113,684</u>

Long-term debt. At the end of the current fiscal year, the Alpena Township had total debt outstanding of \$430,000. All of this amount comprises general obligation bond debt backed by the full faith and credit of the government.

ALPENA TOWNSHIP'S, Outstanding Debt - Bonds and Loans

	Governmental Activities 2005	Business-Type Activities 2005	Total 2005
General obligation bonds	\$ -	\$ 430,000	\$ 430,000
	<u>\$ -</u>	<u>\$ 430,000</u>	<u>\$ 430,000</u>

**Alpena Township
Management's Discussion and Analysis**

ALPENA TOWNSHIP'S OUTSTANDING DEBT

Alpena Township's total debt was decreased by \$155,000 during the current fiscal year.

The Alpena Township and its Water and Sewer Authority both maintain an "AAA" rating from Standard & Poor's and Fitch.

Economic Factors and Next Year's Budgets and Rates

- The fiscal year end 2004 county wide unemployment rate is 7.2 percent compared to 6.8 percent for the state.
- There has been a slight decline in State Revenue Sharing. If budget projections are correct, the Township will lose \$11,214 in the fiscal year ending 2005.
- The Township is currently in discussion with the county, city and business leaders to form an economic development partnership. The goal of the partnership would be to aggressively recruit new business to Alpena as well as to work with existing businesses to ensure their growth and success.
- The Township has new developmental projects that will have a positive impact on their economy.
 1. The Township acquired 133.39 acres of property on Lake Huron to provide recreational opportunities for its residents and tourists. This will attract divers, hikers, bird viewers, etc. to the area, increasing the tourist industry. This project was accomplished with \$1.9 million in funding from MDEQ, MDNR, The Nature Conservancy and local matching dollars.
 2. The Alpena Township Board of Trustees has entered into a contract with the U.S. 23 South neighborhood for the design phase on the U.S. 23 South Water Main Project. A \$3.915 million water main project will deliver water to its jurisdictional boundary of the Township and is a special assessment project. Alpena Township Board of Trustees agreed to loan \$400,000 to the water department for this project.
 3. Incorporated into this budget is a joint road project between MDOT and the Township providing \$60,000 in matching funds for a grant to do landscaping on the M-32 corridor.

The board authorized the ability to research how we can provide the Medical First Responder Program as an additional service to our community.

**Alpena Township
Management's Discussion and Analysis**

During the current fiscal year, unreserved fund balance in the general fund is estimated to be \$952,586. Per the Municipal Council's direction, the Township must maintain a minimum fund balance of 10% of expenses, but strive to increase it to 15%. The final projected fund balance was \$1,611,981 for 2004 but the actual fund balance was \$2,019,285, a difference of \$407,304. This difference in projected and actual is largely due to timing of the completion of capital projects.

With the decrease of state revenue sharing and tax revenues remaining flat, the Township was forced to use approximately one-third, or \$190,045 from the Budget Stabilization Fund for the current fiscal year. There are also vacant positions in the Police, Fire, Clerical and Department of Public Works that have not been filled, and the staffing in the Township Clerk/Treasurer/Finance Director's office was reduced.

The maximum charter millage rate is 17.50, but due to Headlee reductions the City's 2004 maximum millage is 16.2316. The Township levies the full 16.2316.

The above factors will still be affecting the financial situation of the Township for fiscal year 2004-2005 and we have budgeted accordingly, with another transfer from the Budget Stabilization necessary.

The Water and Sewer Funds rates were increased 2.3% from the 2003-2004 fiscal year. These funds are increased annually to ensure a continuous level of service for the customers, as well as funding capital improvements necessary to repair, maintain and upgrade the system. There may be discussion on a bond sale or rate increases to fund future capital improvements.

Requests for Information

This financial report is designed to provide a general overview of the Alpena Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this Report or requests for additional information should be addressed to the Office of the Alpena Township Clerk, 4385 U.S. 23 North, Alpena, MI 49707.

Alpena Township

STATEMENT OF NET ASSETS

March 31, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash and cash equivalents	\$ 794,688	\$ 560,599	\$ 1,355,287
Receivables (net of allowance for uncollectible accounts)	53,732	1,115,751	1,169,483
Internal balances	400,000	(400,000)	-
Due from other governmental units	27,820	-	27,820
Advance to other governmental units	31,835	-	31,835
Capital assets	3,662,400	9,554,021	13,216,421
Accumulated depreciation	(1,052,713)	(3,050,024)	(4,102,737)
Total assets	<u>3,917,762</u>	<u>7,780,347</u>	<u>11,698,109</u>
LIABILITIES			
Accounts payable	13,081	98,311	111,392
Accrued payroll	16,507	2,104	18,611
Other liabilities	-	428	428
Due to other governmental units	-	82	82
Unearned revenue	-	796,857	796,857
Noncurrent liabilities			
Due within one year			
Compensated absences	117,956	-	117,956
Bonds and loans	-	170,000	170,000
Due in more than one year			
Compensated absences	-	-	-
Bonds and loans	-	260,000	260,000
Total liabilities	<u>147,544</u>	<u>1,327,782</u>	<u>1,475,326</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,609,687	6,073,997	8,683,684
Unrestricted	1,160,531	378,568	1,539,099
Total net assets	<u>\$ 3,770,218</u>	<u>\$ 6,452,565</u>	<u>\$ 10,222,783</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

STATEMENT OF ACTIVITIES

For the Year Ended March 31, 2005

	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
			Capital Grants and Contributions
Functions/Programs:			
Primary Government:			
Governmental activities:			
Legislative	\$ 11,570	\$ -	\$ -
General government	486,265	57,468	23,866
Public safety	607,525	-	16,282
Public works	140,275	-	-
Health and welfare	37,250	-	-
Culture and recreation	124,974	-	15,536
Other	166,365	-	-
Total governmental activities	<u>1,574,224</u>	<u>57,468</u>	<u>55,684</u>
Business-type activities:			
Water and Sewer	<u>1,518,313</u>	<u>1,609,295</u>	<u>-</u>
Total business-type activities	<u>1,518,313</u>	<u>1,609,295</u>	<u>-</u>
Total primary government	<u>\$ 3,092,537</u>	<u>\$ 1,666,763</u>	<u>\$ 55,684</u>
General revenues:			
Property taxes, levied for general purposes			
Property taxes, levied for fire department			
State sales tax			
Investment earnings			
Total general revenues and transfers			
Change in net assets			
Net assets - beginning of the year			
Net assets - end of the year			

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (11,570)	\$ -	\$ (11,570)
(316,341)	-	(316,341)
(591,243)	-	(591,243)
(140,275)	-	(140,275)
(37,250)	-	(37,250)
(109,438)	-	(109,438)
(166,365)	-	(166,365)
<u>(1,372,482)</u>	<u>-</u>	<u>(1,372,482)</u>
-	90,982	90,982
-	90,982	90,982
<u>\$ (1,372,482)</u>	<u>\$ 90,982</u>	<u>\$ (1,281,500)</u>
398,408	-	398,408
266,423	-	266,423
652,761	-	652,761
22,793	4,015	26,808
<u>1,340,385</u>	<u>4,015</u>	<u>1,344,400</u>
(32,097)	94,997	62,900
3,802,315	6,357,568	10,159,883
<u>\$ 3,770,218</u>	<u>\$ 6,452,565</u>	<u>\$ 10,222,783</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

BALANCE SHEET - GOVERNMENTAL FUNDS

March 31, 2005

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	\$ 794,688
Receivables (net of allowance for uncollectible accounts)	53,732
Due from other funds	400,000
Due from other governmental units	27,820
Advance to other governmental units	<u>31,835</u>
Total assets	<u>\$ 1,308,075</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Accounts payable	\$ 13,081
Accrued payroll	<u>16,507</u>
Total liabilities	<u>29,588</u>
Fund Balances:	
Unreserved	-
Undesignated	<u>1,278,487</u>
Total fund balances	<u>1,278,487</u>
Total liabilities and fund balances	<u>\$ 1,308,075</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

As of March 31, 2005

Fund balances - Total governmental funds		\$ 1,278,487
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in the governmental funds.		
Governmental capital assets	\$ 3,662,400	
Less accumulated depreciation	<u>(1,052,713)</u>	
		2,609,687
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the governmental funds.		
Compensated absences	<u>(117,956)</u>	
		<u>(117,956)</u>
Net Assets of Governmental Activities		<u>\$ 3,770,218</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended March 31, 2005

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
REVENUES	
Taxes	\$ 664,831
Licenses and permits	57,468
State sources	684,579
Interest and rents	22,793
Other	112,456
Total revenues	<u>1,542,127</u>
EXPENDITURES	
Legislative	11,570
General government	423,883
Public safety	
Liquor control	14,675
Fire	493,385
Crossing guards	3,076
Building inspector	31,758
Zoning and appeals board	8,538
Hydrant rental	51,513
Ordinance enforcement	4,580
Public works	140,275
Health and welfare	37,250
Culture and recreation	124,974
Other	166,365
Capital outlay	40,867
Total expenditures	<u>1,552,709</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(10,582)
FUND BALANCES , beginning of the year	<u>1,289,069</u>
FUND BALANCES , end of the Year	<u><u>\$ 1,278,487</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended March 31, 2005

Net change in fund balances - Total governmental funds		\$	(10,582)
Amounts reported for governmental activities in the Statement of Activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.			
Expenditures for capital assets	\$	50,000	
Less current year depreciation		<u>(64,548)</u>	
			(14,548)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.			
Change in long-term compensated absences		<u>(6,967)</u>	
			<u>(6,967)</u>
Change in Net Assets of Governmental Activities		\$	<u><u>(32,097)</u></u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2005

	Business-type Activities Enterprise Funds
	Water and Sewer Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 560,599
Receivables (net of allowance for uncollectible accounts)	1,115,751
Total current assets	1,676,350
Noncurrent assets	
Property and equipment	9,554,021
Accumulated depreciation	(3,050,024)
Total noncurrent assets	6,503,997
Total assets	8,180,347
LIABILITIES	
Current liabilities	
Accounts payable	\$ 98,311
Accrued payroll	2,104
Other liabilities	428
Due to other funds	400,000
Due to other governmental units	82
Unearned revenue	796,857
Current portion of long-term debt	170,000
Total current liabilities	1,467,782
Noncurrent liabilities	
Long-term debt	260,000
Total noncurrent liabilities	260,000
Total liabilities	1,727,782
NET ASSETS	
Invested in capital assets, net of related debt	6,073,997
Unrestricted	378,568
Total net assets	\$ 6,452,565

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF REVENUES, EXPENSE AND CHANGES IN NET FUND ASSETS
PROPRIETARY FUNDS**

For the Year Ended March 31, 2005

	Business-type Activities Enterprise Funds
	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 1,266,591
Total operating revenues	<u>1,266,591</u>
OPERATING EXPENSES	
Salaries and fringe benefits	181,647
Purchased water and sewer services	909,702
Supplies	19,157
Power and gas	22,054
Repairs and transportation	66,655
Depreciation	150,297
Other	122,338
Total operating expenses	<u>1,471,850</u>
OPERATING INCOME (LOSS)	<u>(205,259)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest earned	4,015
Special assessments	218,207
Unit benefit charges	124,497
Interest expense	(46,463)
Total nonoperating revenues (expenses)	<u>300,256</u>
CHANGE IN NET ASSETS	94,997
NET ASSETS , beginning of the year	<u>6,357,568</u>
NET ASSETS , end of the year	<u>\$ 6,452,565</u>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended March 31, 2005

	Business-type Activities Enterprise Funds
	Water and Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 1,226,197
Cash payments to suppliers for goods and services	(1,135,543)
Cash payments to employees for services	(181,424)
Net Cash Provided By (Used In) Operating Activities	(90,770)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bonds	(155,000)
Interest paid on bonds	(46,463)
Cash received from special assessments	218,207
Cash received from unit benefit charges	124,497
Advances from General Fund	400,000
Acquisition of capital assets	(218,277)
Net Cash Provided By (Used In) Capital and Related Financing Activities	322,964
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	4,015
Net Cash Provided By (Used In) Investing Activities	4,015
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	236,209
CASH AND CASH EQUIVALENTS, beginning of the year	324,390
CASH AND CASH EQUIVALENTS, end of the year	\$ 560,599

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - Continued**

For the Year Ended March 31, 2005

	<u>Business-type Activities Enterprise Funds</u>	<u>Water and Sewer Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ (205,259)	
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation		150,297
Change in assets and liabilities		
(Increase) decrease in accounts receivable		(19,394)
(Increase) decrease in accrued unbilled revenues		(21,000)
Increase (decrease) in accounts payable		4,363
Increase (decrease) in accrued liabilities		223
Net Cash Provided By (Used In) Operating Activities	<u><u>\$ (90,770)</u></u>	

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

March 31, 2005

	Agency Fund
	<hr/>
ASSETS	
Cash and cash equivalents	\$ 1,638
	<hr/>
Total assets	1,638
	<hr/>
LIABILITIES	
Accounts payable	1,638
	<hr/>
Total liabilities	1,638
	<hr/>
NET ASSETS	
Unrestricted	\$ -
	<hr/> <hr/>

The accompanying notes to financial statements are an integral part of this statement.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of Alpena Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity.

Description of Township Operations. Alpena Township is a political entity situated within the County of Alpena which is located in the northeastern region of the lower peninsula of Michigan. The governing body of the Township is the Township Board, composed of the supervisor, the clerk, the treasurer, and four trustees. The Township supervisor acts as the chief administrative and executive officer.

The Township provides services to its citizens in general government, public safety, public works, health and welfare, and recreation and culture. Revenues for these services are provided chiefly by taxes and state shared revenues.

B. Government-Wide and Fund Financial Statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Basis of Presentation.

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. The financial activities of the Township are recorded in separate funds and account groups, described as follows:

Governmental Fund Types. General Fund. This fund includes the general operations of the Township and transactions not included in other funds. The revenues of this fund are derived primarily from property taxes and state shared revenues.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Proprietary Fund Types. Enterprise Fund. This fund records operations that provide services financed primarily by user fees or where periodic measurement of net income is deemed appropriate. This fund is solely the Water Supply and Sewage Disposal System Fund. Special assessment revenues are recorded in this fund. In addition, special assessment receivables have been recorded. Revenue from the sale of water and sewage services is recorded based on the services consumed.

Fiduciary Fund Types. Trust and Agency Fund. This fund is used to account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds.

D. Measurement Focus/Basis of Accounting.

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures (expenses) are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. The accounting policies of Alpena Township conform to generally accepted accounting principles as applicable to governmental units.

Governmental Funds. The Governmental Fund Types (General) use a financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e. both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Current expenditures are generally recorded when the fund liability is incurred, if measurable. Exceptions to this general rule include principal and interest on long-term debt, which is recognized when due, and accrued vacation and sick leave, which is recorded when payable from current available financial resources.

Proprietary Funds. The Proprietary Funds Types (Enterprise) are accounted for on a cost-of-service or "capital maintenance" measurement focus, using the accrual basis of accounting. The Township applies all GASB pronouncements as well as the FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary Funds. The Fiduciary Funds are maintained on a cash basis which is consistent with the accounting measurement objectives of the funds. Reporting these funds on a cash basis does not have an effect materially different from reporting them on the accrual or modified accrual basis as required by generally accepted accounting principles.

Cash and Cash Equivalents. For purposes of these financial statements, cash equivalents include time deposits, certificates of deposit, and all other highly liquid deposits with maturities of three months or less.

Inventories. Inventories are not considered significant and are recorded as expenditures when purchased.

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

- Buildings - 50 years
- Office Equipment - 5 to 7 years
- Computer Equipment - 3 to 7 years
- Water and Sewer Lines - 50 to 75 years

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Interfund balances. On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Employee Vacation and Sick Leave. After one year of employment, Township employees are granted vacation leave in varying amounts based on length of service and other contractual provisions. Vacation pay is fully vested when earned. Employees, other than Firefighters, must use all vacation time in the year it is earned. Sick leave accumulates at various rates stipulated under certain contractual provisions. Upon retirement employees are paid for one-half of their unused sick leave. Firefighters may accumulate 1,800 hours of sick leave. Other employees may accumulate 800 hours of sick leave.

Accrued Liabilities and Long-term Obligations. All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Net Assets. Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Property Taxes. Properties are assessed as of December 31, and the related property taxes become a lien on December 1 of the following year. The taxes are due on February 14 with the final collection date of February 28 before they are added to the delinquent County of Alpena tax rolls. Assessed values are established annually and are equalized by the State at an estimated 50% of current market value. Property in Alpena Township for the 2004 levy was assessed at a taxable value of \$291,939,899. The Township's general operating rate is currently 1.02622 mills and .9605 mills for fire department operations and expenditures. On February 27, 2001, the electorate of the Township of Alpena passed an additional .21 mills (currently .2037 mills) to acquire, construct, furnish, and equip an Alpena County Community Events Center. With other governmental services, such as county, schools, and ambulance, Township residents pay a total of 22.9941 mills for homestead property and 40.8305 mills for nonhomestead property.

By agreement with the County of Alpena, delinquent real property taxes are purchased by the County of Alpena. The proceeds from the County's purchase of the delinquent taxes are used to liquidate the Township's delinquent real property taxes receivables.

Encumbrances. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation is not employed by the Township. Commitments outstanding at year end are charged against the subsequent year's appropriation once received and approved.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Accounting Change. Effective April 1, 2004, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

- A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the Township's activities have been provided.
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$2,609,687 previously reported in the General Fixed Assets Account Group. Capital assets at April 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by \$2,624,235, to reflect the historical cost and accumulated depreciation of the Township's capital assets at that date. In addition, the governmental activities column includes bonds and other long-term obligations totaling \$547,946 previously reported in the General Long-term Debt Account Group.
- The fund financial statements focus on major funds rather than fund types.
- The governmental funds now accrue a liability for compensated absences to the extent that they come due for payment prior to year end.

Reclassification. Certain items reported in the March 31, 2004, financial statements may have been reclassified to conform with the presentation for the current year.

NOTE 2--LEGAL COMPLIANCE.

Budgets and Budgetary Accounting. Prior to adoption of the operating budget, Township departments prepare and submit their proposed operating budgets commencing the following April 1. A public hearing is conducted to obtain taxpayer comments. Prior to March 31, the budget is adopted by the Township Board. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year. Unused appropriations at March 31, are not carried forward to the following year. The budget for the year ended March 31, 2005 was adopted on a functional basis.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Local Unit's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Alpena Township for these budgetary funds were adopted on a function level. Detail at the activity and departmental level is presented in the General Fund Combining Statement for the benefit of management.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

During the year ended March 31, 2005, Alpena Township incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

<u>Fund</u>	<u>Total</u> <u>Appropriations</u>	<u>Amount of</u> <u>Expenditures</u>	<u>Budget</u> <u>Variance</u>
General Fund:			
Public safety			
Building inspector	\$ 30,720	\$ 31,758	\$ 1,038
Liquor control	14,234	14,675	441
Health and Welfare	37,000	37,250	250
Culture and Recreation	31,500	124,974	93,474
Hydrant Rental	50,000	51,513	1,513

Accumulated Fund Deficits. Alpena Township had no funds with an accumulated fund balance/retained earnings deficit at March 31, 2005.

NOTE 3--DEPOSITS WITH FINANCIAL INSTITUTIONS.

The Township maintains separate cash accounts for each of its funds. Cash is not pooled.

For the year ended March 31, 2005 the carrying amount of the Township's deposits with financial institutions was \$1,356,226 and the bank balance was \$1,632,008. Of the bank balance, \$200,000 was covered by federal depository insurance (FDIC), with the remaining balance of \$1,432,008 being uninsured.

Statutes authorize the Township to invest as follows:

- (a) In bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States.
- (b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank or a savings and loan association which is a member of the federal deposit insurance corporation or a credit union which is insured by the national credit union administration, but only if the banksavings and loan association or credit union is an eligible Michigan depository.
- (c) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. No more than 50% of any fund may be invested in commercial paper at any time.
- (d) In United States government or federal agency obligation repurchase agreements.
- (e) In bankers' acceptances of United States banks.
- (f) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 4--INTERFUND RECEIVABLE AND PAYABLES.

Interfund receivable and payables at March 31, 2005 are as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>
General	\$ 400,000	\$ -
Water and Sewer	-	400,000
Totals	<u>\$ 400,000</u>	<u>\$ 400,000</u>

NOTE 5--CAPITAL ASSETS.

Capital asset activity of the primary government for the current year was as follows:

	<u>Primary Government</u>		
	<u>Balances April 1, 2004</u>	<u>Additions</u>	<u>Balances March 31, 2005</u>
Governmental activities:			
Historical cost:			
Land	\$ 1,926,000	\$ -	\$ 1,926,000
Buildings and improvements	1,355,000	-	1,355,000
Equipment	331,400	50,000	381,400
	<u>3,612,400</u>	<u>50,000</u>	<u>3,662,400</u>
Allowance for depreciation:			
Buildings and improvements	(975,600)	(27,100)	(1,002,700)
Equipment	(12,565)	(37,448)	(50,013)
	<u>(988,165)</u>	<u>(64,548)</u>	<u>(1,052,713)</u>
Net Capital Assets	<u>\$ 2,624,235</u>	<u>\$ (14,548)</u>	<u>\$ 2,609,687</u>
Business-type activities:			
Historical cost:			
Land	\$ 17,030	\$ -	\$ 17,030
Buildings and improvements	199,788	-	199,788
Equipment	183,918	-	183,918
Infrastructure	8,883,736	-	8,883,736
Construction in progress	-	269,549	269,549
	<u>9,284,472</u>	<u>269,549</u>	<u>9,554,021</u>
Allowance for depreciation:	<u>(2,899,727)</u>	<u>(150,297)</u>	<u>(3,050,024)</u>
Net Capital Assets	<u>\$ 6,384,745</u>	<u>\$ 119,252</u>	<u>\$ 6,503,997</u>

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 6--LONG-TERM DEBT (including current portions).

Long-term debt (including current portions) of the Township is as follows:

	<u>Balances, Apr 01, 04</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balances, Mar 31, 05</u>
Enterprise Fund:				
Water and sewer bonds				
Alpena County general obligation refunding bonds, dated 1989, 1989-2007 (contractual obligation)	\$ 365,000	\$ -	\$ (105,000)	\$ 260,000
Alpena Township special assessment bonds, dated 1989, 1989-2010	<u>220,000</u>	<u>-</u>	<u>(50,000)</u>	<u>170,000</u>
Totals	<u>\$ 585,000</u>	<u>\$ -</u>	<u>\$ (155,000)</u>	<u>\$ 430,000</u>
General Long-Term Debt Account Group:				
Vacation and sick leave	\$ <u>110,989</u>	\$ <u>6,967</u>	\$ <u>-</u>	\$ <u>117,956</u>
Totals	<u>\$ 110,989</u>	<u>\$ 6,967</u>	<u>\$ -</u>	<u>\$ 117,956</u>

The Water and Sewer Bonds are contractual obligations between Alpena Township and the County of Alpena. These bonds are secured by special assessments levied against benefiting real property located within the Township. In 1989, the Township retired six bond issues through advance refunding. See Note 6 for a more detailed explanation.

The annual requirements to pay principal and interest on the bonds outstanding at March 31, 2006 through 2010, are as follows:

	<u>Enterprise Fund</u>
2006	\$ 200,192
2007	142,588
2008	99,188
2009	27,438
2010	20,750

NOTE 7--BOND REFINANCING.

On May 4, 1989, Alpena County (on behalf of Alpena Township) issued \$3,005,000 in General Obligation Bonds (both Limited and Unlimited) with an average interest rate of 7.37 percent to advance refund six loans held by the U.S. Farmers Home Administration (FmHA) having total outstanding balances of \$3,745,000 with interest rates ranging from 5.0 percent to 11.375 percent. The loans were discounted by the FmHA under a Discount Purchase Program which allowed the Township to purchase their FmHA loans at a discount. FmHA had the right to require the loans to be refinanced in the future at par.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 8--RETIREMENT PLAN.

The Township provides pension benefits for all of its employees who are full-time through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate effective the first August after their employment. The employee and the Township contribute a combined amount equal to 10% of the employee's base salary annually. The Township's share of this contribution is 95%, while the employee is required to contribute 5%. In addition, employees may make voluntary contributions of up to 10% of their base salary. Contributions made on behalf of an employee become vested immediately.

Together the Township and the covered employees made the required 10% contribution, amounting to \$58,510 and \$57,994 as of March 31, 2005 and 2004, respectively. In addition, certain employees made voluntary contributions of \$17,068 and \$13,789 as of March 31, 2005 and 2004, respectively.

NOTE 9--FUND EQUITY.

Reserves of \$0 and \$210,611 exist in the Water Supply and Sewage Disposal System Fund for bonds and replacement at March 31, 2005 and 2004, respectively.

NOTE 10--RISK MANAGEMENT.

The Township is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workman's compensation benefits provided to employees. The Township has purchased commercial insurance for fleet equipment and tort claims, boiler and machinery, certain property and equipment damage and theft, employee theft, and limited tort claims for specific Township facilities or events.

Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverages obtained through commercial insurance during the past year.

The Township pays unemployment claims on a reimbursement basis.

NOTE 11--CONTINGENT LIABILITIES.

There are various claims and legal actions pending against the Township and its various operating units. The Township is defending itself against these claims and actions. In the opinion of Township management, the ultimate amount of loss, if any at this time, will not be material to the financial position of the Township.

Water and sewer services are purchased from the City of Alpena, which charges an estimated unit charge. The Township and City annually reconcile any differences to actual costs, with gain or loss being recognized in a subsequent period. The effect on the financial statements cannot be determined at this time.

Alpena Township has been named as a defendant in appeals of personal property tax valuation by Alpena Power Company and Michigan Consolidated Gas Company. The Scope of valuation at issue is not known at this time.

In addition, the Township, along with other entities, has been identified as a contributor to waste at a landfill that is in the remedial investigation phase. As neither an owner, operator, nor generator of hazardous waste to the site, it is anticipated that the Township will be denying any responsibility for any remedial efforts at the site.

Alpena Township

NOTES TO FINANCIAL STATEMENTS

NOTE 12--BUILDING CODE ACTIVITY.

State of Michigan Construction Code Act (Public Act 245 of 1999) requires building code activity to be separated from other general fund activity effective January 1, 2000. Building code activity for the fiscal year ending March 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Building code revenue	\$ 52,187	\$ 54,459
Building code expenditures		
Direct costs		
Inspector's wages	31,503	30,720
Secretary's wages	19,772	15,669
Fringe benefits	26,869	23,957
Travel	<u>2,451</u>	<u>2,334</u>
	80,595	72,680
Indirect overhead		
Building insurance	2,476	2,251
Utilities	1,886	1,444
Repairs and maintenance	-	602
Telephone	1,309	1,247
Office supplies and printing	5,779	5,519
Legal and professional	2,964	10,504
Other	<u>6,771</u>	<u>700</u>
	22,185	22,267
Total expenditures	<u>102,780</u>	<u>94,947</u>
Excess revenue over (under) expenditures	\$ <u>50,593</u>	\$ <u>(40,488)</u>

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REQUIRED SUPPLEMENTARY INFORMATION

Alpena Township

**REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**

Year ended March 31, 2005

	Budget Amounts			Variance with
	Original	Final	Actual	Final Budget
REVENUES				
Taxes	\$ 612,887	\$ 612,887	\$ 664,831	\$ 51,944
Licenses and permits	52,800	52,800	57,468	4,668
State sources	683,855	683,855	684,579	724
Interest and rents	10,000	10,000	22,793	12,793
Other	8,800	8,800	112,456	103,656
Total revenues	1,368,342	1,368,342	1,542,127	173,785
EXPENDITURES				
Legislative	14,160	14,160	11,570	2,590
General government	551,130	551,130	423,883	127,247
Public safety				
Liquor control	14,234	14,234	14,675	(441)
Fire	625,598	625,598	493,385	132,213
Crossing guards	3,500	3,500	3,076	424
Building inspector	30,720	30,720	31,758	(1,038)
Zoning and appeals board	13,000	13,000	8,538	4,462
Hydrant rental	50,000	50,000	51,513	(1,513)
Ordinance enforcement	10,000	10,000	4,580	5,420
Public works	310,000	310,000	140,275	169,725
Health and welfare	37,000	37,000	37,250	(250)
Culture and recreation	31,500	31,500	124,974	(93,474)
Other	274,122	274,122	166,365	107,757
Capital outlay	555,000	555,000	40,867	514,133
Total expenditures	2,519,964	2,519,964	1,552,709	967,255
EXCESS REVENUES OVER (UNDER)				
EXPENDITURES	(1,151,622)	(1,151,622)	(10,582)	1,141,040
FUND BALANCES, April 1	1,289,069	1,289,069	1,289,069	-
FUND BALANCE, March 31	\$ 137,447	\$ 137,447	\$ 1,278,487	\$ 1,141,040

INDIVIDUAL FUND STATEMENTS

Alpena Township

General Fund

BALANCE SHEET

	March 31	
	2005	2004
ASSETS		
Cash	\$ 73,979	\$ 110,904
Certificates of deposit	720,709	1,107,738
Taxes receivable, current	53,732	46,710
Due from other governmental units	27,820	-
Advance to other governmental unit	31,835	34,186
Due from other funds	400,000	1,115
Prepaid expenses	-	5,352
	<u>\$ 1,308,075</u>	<u>\$ 1,306,005</u>
LIABILITIES AND EQUITY		
Accounts payable	\$ 13,081	\$ 5,068
Accrued payroll	16,507	9,718
Due to other governmental units	-	2,150
	<u>29,588</u>	<u>16,936</u>
Fund Balances		
Unreserved	<u>1,278,487</u>	<u>1,289,069</u>
	<u>1,278,487</u>	<u>1,289,069</u>
	<u>\$ 1,308,075</u>	<u>\$ 1,306,005</u>

Alpena Township

General Fund

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2005 Budget	2005 Actual	2004 Actual
REVENUES			
TAXES			
Property taxes	\$ 532,887	\$ 577,020	\$ 545,355
Other	80,000	87,811	97,550
	<u>612,887</u>	<u>664,831</u>	<u>642,905</u>
LICENSES AND PERMITS			
Building permits	50,000	53,708	53,287
Planning, zoning and appeals	2,200	2,966	3,250
Other	600	794	2,062
	<u>52,800</u>	<u>57,468</u>	<u>58,599</u>
STATE SOURCES			
Sales tax	667,855	652,761	690,413
Land tax	8,000	7,916	-
Liquor control	8,000	8,366	8,207
Other	-	15,536	11,588
	<u>683,855</u>	<u>684,579</u>	<u>710,208</u>
INTEREST AND RENTS	<u>10,000</u>	<u>22,793</u>	<u>13,915</u>
OTHER			
Miscellaneous	8,800	110,918	15,269
Total revenues	<u>1,368,342</u>	<u>1,540,589</u>	<u>1,440,896</u>
EXPENDITURES			
LEGISLATIVE			
Trustees	<u>14,160</u>	<u>11,570</u>	<u>11,575</u>
GENERAL GOVERNMENT			
Supervisor	38,758	39,078	39,205
Clerical	90,230	91,829	86,066
Elections	7,500	15,617	4,979
Auditing	3,800	3,837	3,725
Assessor	30,784	31,828	31,173
Legal	30,000	21,981	20,713
Clerk	36,804	37,108	37,229
Board of review	3,000	1,185	1,470
Treasurer	36,804	36,998	37,339
Data processing	20,000	10,629	9,724

Alpena Township

General Fund

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2005 Budget	2005 Actual	2004 Actual
EXPENDITURES (continued)			
GENERAL GOVERNMENT (continued)			
Janitor	\$ 7,050	\$ 7,975	\$ 7,750
Building insurance	4,500	952	858
Snowplowing	3,150	1,746	1,825
Refuse	350	16,788	11,512
Electric	2,600	1,926	1,853
Heat	6,000	3,444	2,692
Water and sewer	1,000	838	257
Maintenance, buildings	35,000	741	1,122
Maintenance, grounds	71,500	180	5,456
Workers' compensation	2,500	2,529	2,362
Office supplies	15,000	11,146	12,552
Postage	15,000	15,723	12,991
Telephone	6,000	5,675	4,988
Transportation and travel	15,000	10,724	12,005
Printing and publishing	10,000	3,452	4,313
Engineering	6,800	-	-
Dues and memberships	12,000	11,560	11,345
Refunds and rebates	2,500	7,469	1,476
Planning	24,000	2,818	4,399
Miscellaneous	5,000	6,370	4,618
Data processing	8,500	21,737	54,211
	<u>551,130</u>	<u>423,883</u>	<u>430,208</u>
PUBLIC SAFETY, LIQUOR CONTROL			
Salaries	13,434	13,910	13,590
Other	800	765	786
	<u>14,234</u>	<u>14,675</u>	<u>14,376</u>
PUBLIC SAFETY, FIRE			
Salaries	269,084	299,776	279,455
Volunteer fees	18,000	12,840	12,440
Life insurance	1,800	1,385	1,317
Payroll taxes	21,399	24,869	22,860
Hospitalization	66,500	64,904	61,618

Alpena Township

General Fund

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2005 Budget	2005 Actual	2004 Actual
EXPENDITURES (continued)			
PUBLIC SAFETY, FIRE (continued)			
Vehicle insurance	\$ 8,000	\$ 9,053	\$ 7,864
Retirement	20,090	7,322	6,249
Volunteer insurance	2,100	1,713	1,713
Workers' compensation	15,000	10,029	12,120
Legal	8,000	8,293	6,540
Fire prevention materials	1,000	768	-
Operating supplies	4,200	3,009	3,736
Gas and oil	2,500	2,245	1,197
Bedding	-	16	-
Uniforms	-	4,028	2,908
Volunteer gear	6,000	1,300	4,017
Fit-out gear	-	284	93
Schools and conventions	3,500	1,986	340
Telephone	3,500	3,087	2,295
Electric	4,000	4,862	4,384
Heat	6,000	5,339	5,243
Water and sewer	1,000	1,087	555
Maintenance and repairs	48,000	7,796	8,226
Building and grounds	102,925	5,315	6,482
Dues and memberships	1,000	200	71
Physicals	8,000	9,899	568
Miscellaneous	4,000	1,980	1,645
	<u>625,598</u>	<u>493,385</u>	<u>453,936</u>
PUBLIC SAFETY, CROSSING GUARDS	<u>3,500</u>	<u>3,076</u>	<u>3,162</u>
PUBLIC SAFETY, BUILDING INSPECTOR	<u>30,720</u>	<u>31,758</u>	<u>31,075</u>
PUBLIC SAFETY, ZONING AND APPEALS BOARD	<u>13,000</u>	<u>8,538</u>	<u>10,029</u>
PUBLIC SAFETY, HYDRANT RENTAL	<u>50,000</u>	<u>51,513</u>	<u>25,000</u>
PUBLIC SAFETY, ORDINANCE ENFORCEMENT	<u>10,000</u>	<u>4,580</u>	<u>8,371</u>

Alpena Township

General Fund

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**

	Year Ended March 31		
	2005 Budget	2005 Actual	2004 Actual
EXPENDITURES (continued)			
PUBLIC WORKS			
Street lighting	\$ 10,000	\$ 10,239	\$ 8,699
Highways, streets and bridges	300,000	130,036	72,333
	<u>310,000</u>	<u>140,275</u>	<u>81,032</u>
HEALTH AND WELFARE	<u>37,000</u>	<u>37,250</u>	<u>10,449</u>
CULTURE AND RECREATION			
Cultural grant	8,000	14,569	15,149
Recreation	23,500	110,405	31,334
	<u>31,500</u>	<u>124,974</u>	<u>46,483</u>
OTHER			
Hospitalization	89,774	91,406	79,563
Life insurance	1,677	1,602	1,532
Retirement	24,172	32,231	38,119
Social security	25,070	24,084	22,964
Insurance and bonds	7,500	9,306	7,089
Contingency	125,929	-	-
Other	-	7,736	11,142
	<u>274,122</u>	<u>166,365</u>	<u>160,409</u>
CAPITAL OUTLAY	<u>555,000</u>	<u>40,867</u>	<u>51,719</u>
Total expenditures	<u>2,519,964</u>	<u>1,552,709</u>	<u>1,337,824</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(1,151,622)	(12,120)	103,072
FUND BALANCES, April 1	<u>1,151,622</u>	<u>1,289,069</u>	<u>1,185,997</u>
FUND BALANCES, MARCH 31	<u>\$ -</u>	<u>\$ 1,276,949</u>	<u>\$ 1,289,069</u>

Alpena Township

Trust and Agency Fund

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

	Balances, April 1, 2004	Additions	(Deductions)	Balances, March 31, 2005
ASSETS				
Cash	\$ 1,115	\$ 8,057,574	\$ 8,057,051	\$ 1,638
	<u>\$ 1,115</u>	<u>\$ 8,057,574</u>	<u>\$ 8,057,051</u>	<u>\$ 1,638</u>
LIABILITIES AND EQUITY				
Due to other funds	\$ 1,115	\$ 860,190	\$ 859,667	\$ 1,638
Due to other governmental units	<u>-</u>	<u>7,195,846</u>	<u>7,195,846</u>	<u>-</u>
	<u>\$ 1,115</u>	<u>\$ 8,056,036</u>	<u>\$ 8,055,513</u>	<u>\$ 1,638</u>

Alpena Township

SCHEDULE OF INDEBTEDNESS

March 31, 2004

	Interest Rate	Date of Maturity	Principal Payable	Annual Interest Payable
ENTERPRISE FUND				
Alpena County				
1989 Series G.O. Refund-	7.40%	2005/06	\$ 120,000	\$ 19,342
ing Bonds	7.45%	2006/07	75,000	10,463
Date of Issue:	7.50%	2007/08	65,000	4,875
May 4, 1989			<u>260,000</u>	<u>34,680</u>
Amount of Issue:				
\$3,005,000				
Alpena Township				
1989 Special Assess-	7.40%	2005/06	50,000	10,850
ment Bonds	7.50%	2006/07	50,000	7,125
Date of Issue:	7.50%	2007/08	25,000	4,313
May 1, 1989	7.50%	2008/09	25,000	2,438
Amount of Issue:	7.50%	2009/10	20,000	750
\$870,000			<u>170,000</u>	<u>25,476</u>
Totals			<u>\$ 430,000</u>	<u>\$ 60,156</u>

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TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRE
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

June 15, 2005

To the Township Board
Alpena Township
Alpena, Michigan

We have audited the financial statements of Alpena Township for the year ended March 31, 2004, and have issued our report thereon dated July 15, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated June 20, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the general purpose financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of Alpena Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Alpena Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending March 31, 2003. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, some of the adjustments we proposed, which were recorded by the governmental unit, either individually or in the aggregate, indicate matters that could have a significant effect on the governmental unit's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Alpena Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose of financial statements. Following are certain reportable conditions, as well as other matters, we noted during our audit. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

Other Matters

1. **Accounting System.** The current process of manual general ledger entry and record keeping should be considered for transitioning to a computerized system as quickly as possible. Both the process of recording daily transactions as well as completing year end auditing procedures is time consuming, cumbersome, and potentially more prone to errors. With an update to a computerized accounting system management would be able to more efficiently complete accounting functions as well as provide information to those who request it in a timely manner. We would be happy to consult with management as it begins the process of computerizing its accounting.
2. **Special Assessment Bonds.** The Township has previously issued 1989 Special Assessment Bonds. The terms of the bond agreement contained various requirements. One of these requirements was to maintain a Debt Retirement Fund with sufficient bond proceeds to pay fifteen (15) months capitalized interest. At March 31, 2004, the Township had reserved \$210,611 for this purpose. At March 31, 2005 this reserve was \$0. We recommend the Township contact legal counsel to determine that any required bond covenants are being complied with.
3. **Continuing Disclosure.** With the July 2005 issuance of Special Assessment Water Bonds, the Township has agreed to provide, under Rule 15c2-12 of the Securities and Exchange Commission, certain annual financial information and operating data that is consistent with the information contained in the Official Statement relating to these Bonds. This information is required to be filed six months after the March 31 fiscal year end.
4. **GASB Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.** During the year ended March 31, 2005, the Township implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The new standard required government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

5. Recent Pronouncements. The Governmental Standards Board and Michigan Department of Treasury, in its continuing process of updating the accounting principles that all governments must adhere to, has issued the following recent pronouncements that will have an impact on the way Alpena Township maintains its financial records:

a. GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries.

6. Posting of Transactions to the General Ledger. Accurate and consistent recording of transactions within the general ledger is necessary to provide reliable financial information. The reliable recording of transactions includes posting similar revenue and expense transactions consistently throughout the current fiscal year and between fiscal years. The accurate and consistent recording of transactions enables management to analyze financial information in the decision making process and will result in more efficient audit procedures at year end.

We wish to thank the staff of Alpena Township for their assistance during the audit.

This report is intended solely for the information and use of Alpena Township Board of Commissioners, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which upon acceptance by Alpena Township, is a matter of public record.

We appreciate the opportunity to serve Alpena Township. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Straley, Ilsley & Lamp P.C.